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HHS PROPOSES NEW RULES TO DELIVER BETTER BENEFITS AND SAVINGS ON DRUGS FOR MEDICARE BENEFICIARIES Public Comment Urged

HHS Secretary Tommy G. Thompson announced today proposed regulations to deliver on a new law that provides better benefits -- including prescription drug savings of more than 50 percent for the average senior without coverage -- and improved access to health care services through Medicare.

The proposed regulations, which are now available for public comment, implement the essence of the Medicare Modernization Act that creates a new voluntary prescription drug benefit under Medicare, as well as new health plan choices, improved health care for rural America and improved preventive care benefits.

The new prescription drug benefit will allow all Medicare beneficiaries to enroll in drug coverage through a prescription drug plan or Medicare health plan with Medicare paying for 75 percent of the premium. Additional benefits for Medicare beneficiaries who have limited means will cover, on average, 95 percent of their drug costs. The new benefits also will provide new protections for retirees who currently receive drug coverage through their employers or unions. All the new Medicare benefits are voluntary as seniors can choose to keep their existing traditional coverage.

“We’re delivering on our promise to America’s seniors to provide better benefits and real savings on their prescription drugs,” Secretary Thompson said. “For the first time, all Medicare beneficiaries will have access to prescription drug coverage. Seniors currently without coverage could see their drug costs cut by more than half, with lower-income seniors getting even greater savings.”

The Medicare prescription drug benefit is a key element of the Medicare Modernization Act signed into law on Dec. 8, 2003. The Centers for Medicare & Medicaid Services (CMS) today also proposed rules to implement another key element of the law: strengthening and improving the Medicare Advantage program, including making regional preferred provider organizations (PPOs) available to all Medicare beneficiaries. These provisions will give beneficiaries broad and more secure access to coordinated-care health plans that provide additional benefits and significantly lower out-of-pocket costs. Though over 60 million Americans in all 50 states including rural areas get their health insurance coverage through PPOs today, they have generally not been available to Medicare beneficiaries. The proposed rules would also implement new, less costly options for Medigap coverage.

“As we move closer to providing affordable drug coverage, access to popular health plans, and more secure retirement coverage, we need input from the public,” said CMS Administrator Mark B. McClellan, M.D., Ph.D. “We are taking special steps to encourage comments and dialogue on these proposed rules, and implement them together, to assure that the key elements of the new law work together to give seniors and people with disabilities the best Medicare possible.”

Medicare beneficiaries will also have access to supplemental coverage from states, employers, unions and charitable organizations, and they can use these and other sources of their existing coverage to add to the Medicare coverage for more comprehensive assistance.

The rule will go on display today be published in the Federal Register on Aug. 3, 2004. The comment period on the proposed regulations lasts 60 days, closing on Oct. 4, 2004. Final rules are expected to be issued early in 2005. Enrollment for the new Prescription drug plans will begin in the fall of 2005 for benefits starting in on Jan. 1, 2006.

Just over 4 million seniors already are saving on their prescription medicines through Medicare-approved prescription drug discount card. This transitional benefit, which includes \$1,200 in subsidies over the next 18 months for low-income seniors, is the first step toward the permanent drug benefit that the new rules are proposing to implement.

Secretary Thompson said the new regulations are important because of the improved care and financial savings they provide seniors. Washington lawmakers have been promising prescription drug coverage for a decade, but it took President Bush working with Republican Congressional leaders and bipartisan members of Congress to actually deliver real savings and better benefits for seniors. The Secretary said the aggressive timeline for implementing these new benefits shows the administration is moving forward in providing this much-needed help as promised and on schedule.

“We’re focused on the hard work of delivering meaningful savings on prescription drugs for seniors, while some in this town continue to come up with excuses,” Secretary Thompson said. “The bottom line is we’re saving seniors money and we’re strengthening Medicare with better benefits and more choices.”

The Medicare Prescription Drug Benefit

As described in the proposed regulation, the new prescription drug benefit will help Medicare beneficiaries lower the prices they are currently paying for their prescription drugs, make those costs much more predictable, and provide more choices and greater access to high quality care. When the regulations are implemented, Medicare beneficiaries who wish to receive the prescription drug benefit can choose to enroll either in a Medicare health plan or prescription drug plan with a monthly premium of around \$35. The drug coverage will be available to enrollees who choose the traditional, fee-for-service Medicare plan as well as any Medicare Advantage program.

All beneficiaries, regardless of their income, will receive significant help with their drug bills and protection from high drug costs under the new Medicare prescription drug plans. After a \$250 deductible, the standard drug benefit paid by the federal government in 2006 will be 75 percent of the

drug costs up to an initial coverage limit of \$2,250 and 95 percent of the beneficiary's drug costs once the beneficiary spends \$3,600 out-of-pocket. There is no annual plan maximum and that coverage will never run out. On average, the new benefit will cover about half of beneficiaries' prescription drug costs for those currently without coverage.

Comprehensive Help for Beneficiaries with Limited Means

Under the proposed rule, it is estimated that nearly 11 million beneficiaries with limited means will receive substantial additional help from Medicare.

- About 6.4 million "dual-eligible" low-income beneficiaries will have no premium or deductible and nominal co-pays of as little as \$1 or \$3 per prescription. For these beneficiaries, the Medicare benefit will pay, on average, 97 percent of their drug costs.
- About 3 million Medicare beneficiaries who are not full benefit dual eligibles, but whose incomes are less than 135 percent of the federal poverty level (\$12,568 for an individual and \$16,861 for a couple in 2004) with limited assets will also pay only a few dollars per prescription. Medicare will cover 95 percent of their drug costs on average.
- About 1.5 million beneficiaries with incomes less than 150 percent of the federal poverty level and assets up to \$10,000 (or \$20,000 if married) in 2006, the Medicare benefit will provide 15 percent co-pays with a sliding-scale premium, covering on average 85 percent of their drug costs.

The proposed rules make clear that the asset test will only count liquid assets and real estate holdings other than a beneficiary's home or residential farm -- non-liquid assets like wedding rings, family heirlooms, and burial plots will not be counted. In addition, the rule outlines new methods for collaboration with the Social Security Administration, states and non-governmental organizations that work with Medicare beneficiaries with limited means to enroll as many eligible beneficiaries as possible. Altogether, about a third of all Medicare beneficiaries and about half of minority beneficiaries will qualify for these very comprehensive benefits, which involve no gaps in coverage.

"The proposed rules underscore one of the greatest strengths of this new law -- it provides the greatest help to those most in need," Secretary Thompson said. "It is a tremendous benefit for seniors and those with disabilities who have limited incomes, so they can cut their medicine bills in half, not their pills. The proposed rules also outline a straightforward, common-sense assessment of assets for those seeking these benefits."

Negotiating Power to Make Drugs More Affordable

The prescription drug plans and Medicare Advantage program will use their experience in negotiating discounted prices and managing prescription drugs costs to ensure that beneficiaries pay the lowest prices available for the drugs they need. These plans have demonstrated their ability to pass on lower costs to their health plan members and many enrollees in public health insurance plans for many years. The proposed rule outlines a similar approach for encouraging beneficiaries to get the best discounts on their drugs -- discounts as good or better than could be achieved through direct

government negotiation, resulting in prices that will be substantially better than Medicare's prior experience with price regulation for drugs covered in Part B -- by using approaches similar to those used by the federal employees' plans and by many other large health care payers.

The proposed rule also describes beneficiary protections intended to make sure that all beneficiaries have coverage for medically necessary drugs through nearby pharmacies. Drug plans would be subject to many of the existing beneficiary protections that are available in Medicare, as well as some new ones, including requirements to meet strict pharmacy access standards to give beneficiaries access to retail pharmacies and needed drugs. The proposed rule outlines the process for the coverage of drugs that are not on the formulary when a physician determines that it would be in the best interest of the patient to have that drug. Under this process, urgently needed drugs would be covered while a prompt exception process is concluded.

Plans offering the new Medicare drug benefit will also be required to offer a program to make sure beneficiaries receive the appropriate drugs to improve their health outcomes and reduce adverse drug interactions. The rule describes how the drug benefit will build on the transparent pricing and coverage features of the Medicare drug discount card to help make sure that beneficiaries can get the important, individualized information they need about a plan's features.

More Help to Secure Coverage for Retirees

The proposed rule includes tens of billions of dollars in new federal spending to protect retirees who get prescription drug coverage through their former employers and unions. Employers have been dropping this coverage at an alarming rate over the past 10 or 15 years. The new Medicare rule is the first real effort by the Federal Government to reverse this trend and to preserve employer-sponsored retiree drug coverage.

The new rule gives employers a menu of options that will enable them to continue subsidizing drug coverage for their retirees. One option would provide sponsors of retiree drug coverage with federal subsidies of 28 percent of incurred allowable drug costs between \$250 and \$5,000 in 2006 per qualifying covered retiree to help the companies maintain prescription drug coverage for their retirees. But the rule offers employers other ways to stay in the game. It provides other approaches for employers to supplement the Medicare drug benefit, to provide more comprehensive coverage at a lower cost than employers face today. The additional options are important to help assure that retirees are better off, because many employers do not currently contribute enough to the cost of retiree drug coverage to avoid a "windfall" (that is, a payment to an employer that exceeds their contribution to the retiree coverage, which will not be allowed) and because many employers may prefer to provide "wraparound" coverage, similar to the wraparound coverage they provide for Part A and Part B Medicare benefits. Each of these options would result in providing retirees with more comprehensive coverage at less cost than employers face today.

"We intend to give employers and unions a set of subsidized options to help them continue to provide high-quality drug coverage," said Dr. McClellan. "The result will be a significant increase in the total support for retiree benefits, and we're seeking input from retirees, employers, and unions on the best ways to maximize this increase in retiree coverage."

More Help for Beneficiaries Receiving State Benefits

The proposed drug benefit will save states \$500 million in 2006 and \$8 billion over five years. In addition to providing significant net savings to states through comprehensive Medicare coverage for dual-eligible beneficiaries and new Medicare subsidies for state retiree coverage, the new law and the proposed rules also allow states the flexibility to “wrap around” the comprehensive coverage for certain low-income beneficiaries and count as true out-of-pocket expenses. As a result, State Pharmacy Assistance Programs (SPAPs) plans will be able to provide the same or better coverage for the beneficiaries who receive coverage through state programs now, at a lower cost per beneficiary for the states because of the availability of the Medicare drug benefit.

States will be able to restructure existing “Pharmacy Plus” programs to wrap around the Medicare prescription drug benefit. States will also be able to receive new assistance with the costs of drug coverage for their retirees, just like any other employer offering qualified retiree drug coverage. Medicare will use the comment process to work closely with all states, the new “SPAP Commission,” and many other forums, to ensure that the drug benefit delivers better coverage and lower costs for beneficiaries based on the individual circumstances of each state.

More Opportunities for Beneficiaries to Get More Benefits and Save Money in Medicare Advantage Programs

Beneficiaries who choose to enroll in a Medicare Advantage program can get their drug benefits as part of their plan, allowing the plans to better coordinate beneficiaries’ medical care and drug coverage.

The new rules also create a new competitive bidding system for paying Medicare Advantage programs, and for the first time provide support for regional Medicare Advantage preferred provider organizations as an option for Medicare beneficiaries beginning on Jan. 1, 2006. These changes are important options for Medicare beneficiaries without good, inexpensive supplemental coverage (for examples, from Medicaid or an employer) to get extra benefits and much lower out-of-pocket costs compared to the traditional fee-for-service Medicare plan. Recent studies indicate that beneficiaries in Medicare Advantage program pay about \$700 less on average in out-of-pocket medical costs per year, and beneficiaries in fair or poor health may pay about \$1,900 less. When the new rules and payments are implemented, PPOs and other lower cost and more comprehensive coverage options will be much more widely available to Medicare beneficiaries.

PPOs are the most popular health insurance choice for non-Medicare beneficiaries, including millions of Americans in rural areas, in part because they offer both low co-payment rates for “network” services as well as coverage for non-“network” care from any provider. Unlike the current Medicare Advantage program, which features local plans that serve individual counties and groups of counties, the new regional PPOs will bid to serve an entire region. Following extensive public input, a market survey and analysis that takes into account public comments, the Secretary will establish 10 to 50 Medicare Advantage regions to maximize plan participation.

Under the proposed rules, all of these plans are required to offer the same benefits as traditional fee-for-service Medicare with simplified cost-sharing and new protection against catastrophic costs. They are also expected to offer additional benefits not available in fee-for-service Medicare, such as dental or vision services; lower co-payments or other reduced cost sharing; payment of a beneficiary's premium for these supplemental benefits; or lower Medicare Part B premiums and drug benefit premiums. The new plans may offer a wider range of doctors and other health care providers than the Medicare coordinated care plans that are currently available.

The rule also supports the creation of plans to offer health care services to people with special needs, such as those who are Medicaid eligible, have severe or disabling chronic conditions, or live in nursing homes or other long term care institutions.

Public Comment Period Begins Now

CMS and many organizations involved in health care and Medicare will be hosting meetings all across the country to gather information and comments beginning July 26 until the comment period closes on Oct. 4, 2004. CMS will also host a series of national phone calls for additional comment, input and information. Comments can also be sent electronically to www.cms.hhs.gov/regulations/ecomments.

Secretary Thompson urged seniors and other interested parties to submit constructive recommendations during the comment period so HHS and CMS can make sure the benefits are provided in the most effective and efficient way possible.

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